



U.S. Small Business
Administration



“HOW TO RUN A BUSINESS BETTER” USING QBs FINANCIAL DASHBOARD



Sponsoring Organization:
U S Small Business Administration (SBA)

PRESENTER:
RUFFIN CONSULTING
Walt Ruffin, CPA, CCP, CDP, MBA

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2:00pm



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SYLLABUS

2:00 – 2:05

Intro – Opening Remarks

2:05 – 2:15

Accounting Requirements for Federal Contractors

2:15 – 2:25

Cash Flow and Budgeting

2:25 – 2:40

Metrics and Performance Indicators

2:40 – 2:50

Questions and Answers



INTRODUCTION

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Learning Goal – What should trainees expect from participation?

- *An understanding of the nature and purpose of running an effective and efficient business*

Learning Objective – What should participants be able to do?

- *Know How to Run a Business Better!!!*

ACCOUNTING SYSTEM – REQUIRED FOR FEDERAL CONTRACTING

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Determining the adequacy of accounting systems:

- Contractor's cost accounting system is a major source of data used in preparing for proposal for a negotiated contract and in accumulating costs during contract performance. Before a certain negotiated contract can be awarded, a determination must be made as to the adequacy of the contractor's accounting system – Pre-Award Audit.
- *[FAR 16.301-3 states that a cost-reimbursement type contract may be used only when the contractor's accounting system is adequate for determining costs applicable to the contract. If no information is available in the files to make this determination, a Pre-Award Survey of Prospective Contractor's Accounting System (SF1408) can be requested from DCAA. Before requesting such an audit, it is a good idea to send this checklist to prospective contractors for completion to ensure they understand the requirements of the SF1408, and to ensure they are ready for DCAA to come in and perform an audit.]*



ACCOUNTING SYSTEM – REQUIRED FOR FEDERAL CONTRACTING

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Timekeeping:

- A contractor should have written timekeeping policies and procedures. This includes but is not limited to:
 - Accumulating and billing labor costs
 - Filling out and correcting timesheets
 - Processing payroll
 - Performing payroll and labor corrections/transfers
 - Overtime on Cost Plus Contracts.



ACCOUNTING SYSTEM – REQUIRED FOR FEDERAL CONTRACTING

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Timekeeping:

- Labor should be charged to intermediate and final cost objectives based on a timekeeping document (paper or electronic timecards) completed and certified by the employees and approved by the employees' supervisors.
- All employees on a daily basis should fill out a timesheet with all hours worked.
- Labor cost distribution records should reconcile to payroll records and labor distribution records should trace to and from the job cost ledger and general ledger accounts.



ACCOUNTING SYSTEM – REQUIRED FOR FEDERAL CONTRACTING

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Accounting Procedures are key policies that corporate leadership establishes to run operating activities effectively. The most important accounting operating procedures concern bookkeeping, payroll, tax reporting, fixed-asset management and financial reporting.

Financial Accounting Policy (Exhibit)



TIME SHEETS / TIME TRACKING

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TSHEETS:

❑ <https://www.tsheets.com/>

CLOCKSHARK:

❑ <https://www.clockshark.com/>

SPRINGAHEAD:

❑ <https://www.springahead.com/>



ACCOUNTING SYSTEMS

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- One of the most recognized Accounting Software Solutions in the World!
- These software solutions are used to monitor expenses, create invoices and reports, track change orders and job status, and manage inventory, customers, vendors and employees. In addition to these industry specific packages and their corresponding capabilities, Intuit offers add-ons to QuickBooks versions as well as third-party tools that integrate with QuickBooks in order to enhance current functions.



ACCOUNTING SYSTEMS

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QuickBooks Desktop	
Pros:	Cons:
Full Job Costing Capability	Confined to One Device unless in Server Environment
One Time Purchase Cost	Discontinued Support after 3 Years
Full Functionality	
Progress Invoicing Capability	
Easy Integration with Other Software	
Built In Payroll Module	
Ability to Pass DCAA Audit****	



ACCOUNTING SYSTEMS

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QuickBooks Online	
Pros:	Cons:
Use QuickBooks from Anywhere!	Limited Job Costing Ability
Progress Invoicing Capability (Sort Of)	Monthly Subscription Fee
Easy Integration with Cloud Based Apps (300+)	System Functionality at the Mercy of Internet Connection
Unlimited Customer Support	ALMOST IMPOSSIBLE to pass DCAA Audit
Built In Payroll Module	



OTHER ACCOUNTING SYSTEMS (Cloud-Based Accounting)

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Unanet: (Professional Service)

- <https://www.unanet.com/>

Intacct: (Professional Service and Construction)

- <https://www.sageintacct.com/why-intacct>



CASH FLOWS AND BUDGETS

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- “**Working Capital**” is the amount of money that your firm currently has available to continue operations.
- Working Capital is calculated as follows:
Current Liquid Assets (Cash and Cash Equivalents) - Current Liabilities (Due within one Year).



CASH FLOWS AND BUDGETS

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- **Working Capital Defined:**

- Cash – Cash in Bank Accounts
- Cash Equivalents – Assets that are readily convertible into cash within a short period of time (Three Months)
- Current Liabilities – Outstanding Obligations to Pay Vendors arising from purchases made on Credit. Obligations are due within one year from Reporting Date.
- Operating Capital is **3 to 6 months** of Operating Expenses.



CASH FLOWS AND BUDGETS

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When performing financial analysis in the start up phase of your business, or an individual project, it is much easier to forecast expenses than revenues.

There are Two Types of Expense:

- Variable
- Fixed/Overhead



CASH FLOWS AND BUDGETS

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Common Variable Costs:

- Cost of Goods Sold
 - ✦ Labor
 - ✦ Materials
 - ✦ Subcontractors
 - ✦ Direct Sales
 - ✦ Direct Marketing
 - ✦ Other Direct Costs



CASH FLOWS AND BUDGETS

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Common Fixed Costs/Overhead:

- Rent
- Utilities
- Phone Bills
- Accounting Fees
- Legal Fees
- Postage and Shipping
- Office Supplies
- Office Salaries
- Officer Salaries



CASH FLOWS AND BUDGETS

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**In order to make Effective Business Decisions,
a Business Owner must:**

- **Know your Cost**
 - ✦ What is your cost structure?
- **Understand your Cost**
 - ✦ How does cost within your cost structure behave?
- **Control your Cost**
 - ✦ Are you monitoring cost and performance?



CASH FLOWS AND BUDGETS

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- **Why are Budgets Important?**

- Budgets are the Benchmarks (Performance Metrics) by which all Small Business should Operate.
- Budgets allow you to manage costs, make sound management decisions based on accurate data, and allow you to monitor and take corrective action if necessary.
- Budgets should be updated regularly!
- Once an Annual Budget has been created, you should compare your “Actual” financial performance at least quarterly.
- An Estimate vs Actual Analysis will provide numerous pieces of information simultaneously.



CASH FLOWS AND BUDGETS

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CASH FLOWS AND BUDGETS

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- By Analyzing Estimate vs Actual, you will:
 - ✦ Identify Instances of Mis-Coding of Transactions by Bookkeeping.
 - ✦ Identify Overestimated or Underestimated Expense Accounts
 - ✦ Identify the Need for Addition of New Accounts
 - ✦ Determine corrective action needed for each Account.



CASH FLOWS AND BUDGETS

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“You Can’t Manage What you Cant Measure”



METRICS / PERFORMANCE INDICATORS

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- **What is the Break-Even Point?**
- The break-even point refers to the revenues needed to cover a company's total amount of fixed and variable expenses during a specified period of time. The revenues could be stated in dollars (or other currencies), in units, hours of services provided, etc.



METRICS / PERFORMANCE INDICATORS

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- What is Break-Even and why is it important?
 - specifically cost accounting, the *break-even* point (BEP) is the point at which cost or expenses and revenue are equal: there is no net loss or gain, and one has "broken even."

				%
<u>Contribution Margin:</u>	Revenue	\$1,000,000.00	A	100.00%
	Variable Cost	\$ 450,000.00	B	45.00%
	Gross Profit	<u>\$ 550,000.00</u>	C = A - B	55.00%
	Contribution Margin	55.00%	D = C / A	
<u>Break - Even:</u>	Fixed Expenses	\$ 480,000.00	E	
	Contribution Margin	55.00%	F	
	Break-Even	\$ 872,727.27	G = E / F	
<u>Break-Even Proof:</u>	Break-Even Revenue	\$ 872,727.27	H	
	Variable Cost	45.00% \$ 392,727.27	I	
	Fixed Expenses	\$ 480,000.00	J = H - I	
	Fixed Expenses	\$ 480,000.00	E	
	Variance	\$ -		

METRICS / PERFORMANCE INDICATORS

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Other factors to consider when calculating Break-Even:

- How is your Competition pricing their product or service?
- Where do you want your pricing to be in Relation to your Competition?
 - Low-End (High Volume – Lower Quality Product)
 - Midpoint (Comparable Volume – Comparable Quality Product)
 - High-End (Low Volume – Higher Quality Product)



METRICS / PERFORMANCE INDICATORS

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Your A/R Turnover rate is very important!!!! This rate tells you how quickly your customers pay you on average.

The formula for A/R Turnover is as follows:

$$\frac{\text{Net Annual Credit Sales}}{\text{Average Accounts Receivable}}$$

Net Annual Credit Sales = All Sales on Credit

Average Accounts Receivable = (Beginning Accounts Receivable + Ending Accounts Receivable) / 2



METRICS / PERFORMANCE INDICATORS

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Example:

FY 2015 Net Annual Credit Sales is \$3,555,230

Beginning A/R = \$653,450

Ending A/R = \$1,068,390

What is your A/R Turnover Ratio?



METRICS / PERFORMANCE INDICATORS

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$$\frac{\$3,555,230 \text{ Net credit sales}}{(\$653,450 \text{ Beginning receivables} + \$1,068,390 \text{ Ending receivables}) / 2}$$

=

- $\frac{\$3,555,230 \text{ Net credit sales}}{\$860,920 \text{ Average accounts receivable}}$
- = 4.13 Accounts receivable turnover

This means that your Accounts Receivable account was paid in full 4.13 times in the last year.

You want your A/R Turnover Ratio to be at least a 12.0!



METRICS / PERFORMANCE INDICATORS

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You can also use this ratio to determine how many Months, or even Days, that it takes for you to be paid in full on all accounts:

Months Turnover = 12 Months / 4.13 A/R Turnover Ratio = 2.91 Months

Days Turnover = 360 Days / 4.13 A/R Turnover Ratio = 87.18 Days



FINANCIAL DASHBOARD

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SAMPLE FINANCIAL DASHBOARD (Exhibit)



QUESTIONS?????



RC CONTACT INFORMATION

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Eric Ruffin, President/CEO

eruffin@ruffinpc.com

Jennifer Wheeler, Office Manager

jwheeler@ruffinpc.com

Ruffin Consulting, PC

110 Glancy St., Suite 107

Goodlettsville, TN 37072

615-528-1110 or 847-235-9488

www.ruffinpc.com